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FARMERS' NEWSLETTER



May 78/W-3

This newsletter, which has been authorized by Congress, is sent to you by USDA. It is designed to help you make production and marketing decisions. If you would like to continue receiving it, or any of the other newsletters in the series, return the form on the back with your name and address. (You need not return the form if you've already requested to be put on the mailing list.) All the newsletters will be issued as warranted during the year. Any comments as to how we can make these letters more useful to you as a producer are welcome.

serve As a wheat grower, you're probably grappling now with two big decisions: What to do with old wheat on hand, and how to handle the new crop.

There are four principal price-determining factors which you should key on. These are:

- Carryover stocks are very large, but farmers are pulling a large part off the market by putting it under price-support loans, and placing much of that in the reserve.
- Acreage for the 1978 harvest is down substantially from last year.
- Foreign demand for U.S. wheat will remain strong because other major exporters are about sold out until new wheat becomes available late this fall or next year.
- The set-aside and reserve programs are strengthening prices.

Wheat Stocks Continue Large

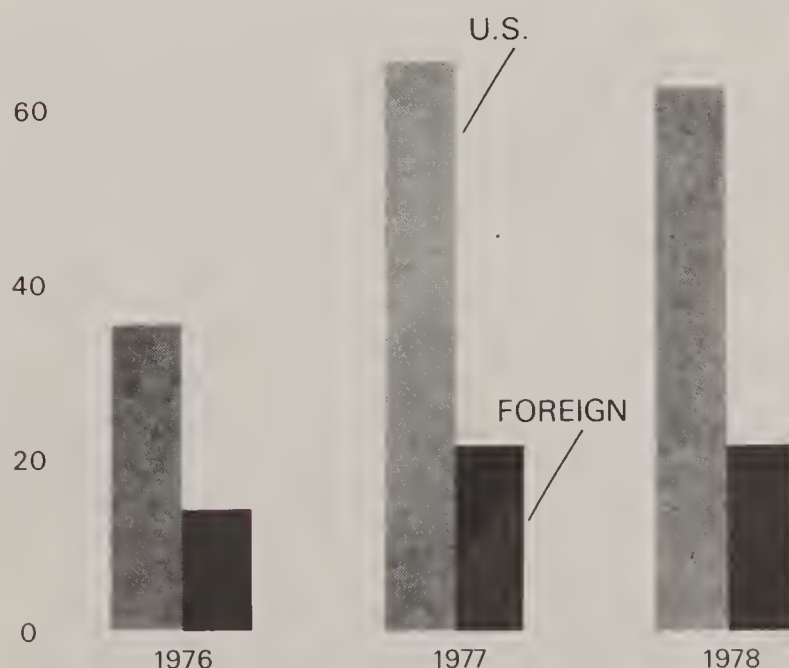
Let's first look at stocks. On April 1 there were an estimated 1.5 billion bushels of wheat on hand. That's 10 percent more than a year ago, and 63 percent more than 2 years earlier.

By June 1, the end of this marketing year, carryover stocks are likely to be about 1.2 billion bushels. That would be 8 percent above last year, and 81 percent more than the level prevailing in 1976.

For contrast, compare this with 1974, when the carryover shrank to only 340 million bushels in the wake of heavy buying by the U.S.S.R., the People's Republic of China, and other countries.

WHEAT CARRYOVERS AS PERCENT OF ANNUAL NEEDS

PERCENT
80



This June's carryover about equals the wheat our country uses and exports in 7 months. However, about a third of it is needed for working stocks, or pipeline supplies. Hence only about 800 million bushels would be available for domestic use and exports.

About a third of the total carryover, however, will be tied up in the USDA grain reserve program. Adding the amount expected to be under loans but not in the reserve brings the part of the carryover held off the market to almost half. Further, under pending legislation, 220 million bushels would be purchased for the international emergency food reserve.

With the prospect of so much wheat tied up, market prices for the current marketing year strengthened. The Kansas City price (for No. 2 hard, ordinary protein) climbed from a low of \$2.20 last June to around \$3.00.

New Crop Prospects Bullish

Although it's too early to tell for sure how much grain this year's U.S. wheat harvest will bring in, there are some clues. Those of you who planted winter wheat cut back from last season--to the tune of 14 percent. And growers of spring wheat were planning to cut acreage about 5 percent.

It appears, then, that total wheat plantings for harvest in 1978 will be down 12-15 percent from the 74.8 million acres planted for 1977.

An interesting twist to the general cutback is that the Durum growers planned to seed almost 30 percent more acreage. Relatively high prices recently provided the incentive at the expense of other spring wheat and grains.

But planting intentions obviously don't guarantee wheat in the bins, so some allowance should be made for developments along the way to harvest.

That's why we have made two different projections for production and demand. The chances are 2 out of 3 that the final outcome will fall somewhere between these two extremes.

The first projection is based on what might happen with generally favorable conditions around the globe. U.S. wheat output would be around 1.9 billion bushels.

Use--both domestic and foreign--would take about 1.8 billion bushels, down nearly 8 percent from the 1977/78 figure. Good crops in other countries would explain most of the dropoff in demand for U.S. wheat.

Carryover stocks would continue to rise, topping this year's 1.2-billion estimate by more than 100 million bushels. And prices for the 1978 crop would sag to the \$2.25-2.75 range unless the excess is placed in reserve.

The picture changes considerably, though, if worldwide conditions are generally unfavorable.

WHEAT SUPPLY, USE, AND PRICE

Item	1976/77	1977/78	1978/79 projected ¹	
			Alt. I	Alt. II
<i>Million bushels</i>				
Supply:				
Beginning				
stocks	665	1,112	1,205	1,205
New crop	2,142	2,026	1,920	1,610
Imports	3	2	2	2
Total supply .	2,810	3,140	3,127	2,817
Use:				
Food	553	555	563	557
Seed	88	80	73	77
Feed	107	200	150	50
Exports	950	1,100	1,000	1,300
Total use	1,698	1,935	1,786	1,984
Ending stocks . . .	1,112	1,205	1,341	833
<i>Dollars per bushel</i>				
Avg. farm price ²	2.73	2.31	2.25-2.75	3.25-3.75

¹ Alternative I shows expected results if planting, growing, and harvesting conditions are generally favorable worldwide; Alternative II reflects consequences expected if conditions are generally unfavorable. ² Average price received by farmers for the entire crop.

First of all, the U.S. wheat crop would be down to only about 1.6 billion bushels. But with poor weather in other countries, our exports would probably increase some 300 million bushels from what they would otherwise be.

Altogether, foreign and domestic demand would add up to nearly 2 billion bushels, leaving little more than 800 million bushels on June 1, 1979.

The upshot: Prices would receive a strong boost, lifting the season average farm price to \$3.25-3.75 a bushel.

Furthermore, based on what farmers told us as of May 1, the winter wheat crop could turn out smaller than earlier expected. Our estimate of 1.28 billion bushels would be 16 percent below last year and less than what traders were anticipating. Two points to be made about that estimate: It came before those early-May rains in the southern plains, and typically from this first estimate until the final one, the change will average plus or minus 60 million bushels.

World Demand Up

World wheat use is expected to reach 14.5 billion bushels (395 million metric tons) for this 1977/78 marketing year, up 5 percent from last year. But still, the international wheat market is feeling the effects of two big crops the past 2 years.

For this marketing year, the total world supply hit 17.6 billion bushels (479 million tons). That was 1 percent above last year, and 16 percent above the year before that. Mainly it was because the big carryover from the record 1976 crop more than made up for the smaller 1977 output.

Season-ending world stocks are expected to shrink some 12 to 15 percent from last year. However, they'll still be about a third more than the skimpy carryover stocks of 1973-76. And while total world stocks are decreasing, U.S.

stocks have been building. Carryover stocks in this country are about two-fifths of the global total.

It's still far too early for a specific forecast of this year's world wheat production.

A bumper world crop would put downward pressure on U.S. prices while a short world crop would increase the demand for U.S. grain, thus giving prices a big boost.

So far, the foreign market looks pretty good.

The People's Republic of China, not normally a buyer of U.S. wheat, recently ordered 1 million metric tons (37 million bushels) of our wheat, and may buy more. China suffered from drought last year, and it has again been dry in some wheat producing areas. Also, the U.S.S.R. is supposed to take roughly 3 million metric tons (110 million bushels) during 1978/79 under the long-term grain agreement. The U.S.S.R. has bought 3.5 million metric tons from us in 1977/78.

Since most of the major exporters --except the U.S.--are about sold out until their next harvest, our traders are in a good position to get new orders.

We have plenty of grain to meet all expected export demands, but transportation problems might become a limiting factor. Recent examples include explosions at elevators, a shortage of boxcars, and severe mechanical problems at one dam on the Mississippi River, interrupting barge movement.

Even so, it now appears that the grain-handling system can meet prospective export needs during the next few months. This prospect, of course, would be weakened by elevator explosions, strikes at Pacific and Great Lakes ports, or restricted steel imports which would reduce the number of ships available for backhauling wheat and other grains.

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The Bottom Line

What do these various facets of the wheat situation mean for prices?

It's true that strong farmer participation in the reserve program and the heavy loan placements have strengthened prices. A reminder, though: If your wheat is in reserve, you can't sell--without a penalty--until the market price exceeds \$3.15 a bushel. And you must pay off your loan after the price exceeds \$3.94. Remember that the reserve program will be open for 1978 wheat under loan to serve as a cushion if you need it.

Meanwhile, you'll still have your 25 cents a bushel for storage payment

WHEAT LOAN RATES AND TARGET PRICES

Crop	Loan rates		Target prices	
	1977	1978	1977	1978
	<i>Dollars per bushel</i>			
Wheat	2.25	2.25 ¹	2.90 or 2.47 ²	3.00 or 3.05 ^{3 4}
Corn	2.00	2.00	2.00	2.10
Sorghum grain . .	1.90	1.90	2.28	2.28 ¹
Barley	1.63	1.63	2.15	2.25 ¹
Oats	1.03	1.03	—	—
Soybeans	3.50	4.50	—	—

¹ Preliminary. ² \$2.90 for allotment wheat, or \$2.47 if allotment underplanted. ³ \$3.00 if crop exceeds 1.8 billion bushels, or \$3.05 if crop is less than 1.8 billion bushels. ⁴ Under authority recently granted by Congress, the target price for wheat may be raised to \$3.40 by the time this letter reaches you.

for all wheat you've already committed to the reserve. Also, you won't be charged any interest on your loan after the first year.

Keeping Informed

So keep an eye on developments in the U.S. and abroad which might push prices up or down. Swings in speculators' attitudes and currency fluctuations are two of the things to watch.

Things you can do to keep informed: Check frequently with your local grain buyer. Follow trends in the futures and cash markets.

And watch for the latest USDA estimates and forecasts of farm production and market requirements.

Mark these dates on your calendar: June 9, Crop Production (which will indicate winter wheat output); June 13, Cattle on Feed (placements, marketings, and intentions, quarterly); June 22, Grain Stocks, and Hogs and Pigs; June 30 (corn, spring wheat acreage); and July 11, Crop Production (which will show first production estimates for corn, wheat, oats, barley, and rye).

For the latest crop, livestock, and economic information, call this toll-free number (800) 424-7964. Round-the-clock reports direct from USDA change each weekday at 4:00 p.m., EDT.